

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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In the Matter of the Application	)	DOCKET NO. 06-035-21
Of PacifiCorp for Approval of	)	PRE-FILED DIRECT
Its Proposed Electric Service	)	REVENUE REQUIREMENT
Schedules and Electric	)	STIPULATION TESTIMONY OF
Service Regulations	)	DONNA DERONNE
	)	FOR THE COMMITTEE OF
	)	CONSUMER SERVICES

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**August 17, 2006**

1    **Q.    WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2    A.    My name is Donna DeRonne. I am a Certified Public Accountant licensed  
3           in the State of Michigan and a senior regulatory analyst at Larkin &  
4           Associates, PLLC, Certified Public Accountants, with offices at 15728  
5           Farmington Road, Livonia, Michigan 48154.

6

7    **Q.    ARE YOU THE SAME DONNA DERONNE THAT PREVIOUSLY FILED**  
8           **DIRECT TEST YEAR TESTIMONY IN THIS PROCEEDING?**

9    A.    Yes, I am.

10

11   **Q.    HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR**  
12       **QUALIFICATIONS AND EXPERIENCE?**

13   A.    Appendix I to my direct testimony on Test Year, previously filed in this  
14       case on June 9, 2006, consists of a summary of my regulatory experience  
15       and qualifications.

16

17   **Q.    ON WHOSE BEHALF ARE YOU APPEARING?**

18   A.    I am appearing on behalf of the Committee of Consumer Services  
19       (Committee).

20

21   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

22   A.    My testimony addresses the Revenue Requirement and Rate Spread  
23       Stipulation (Stipulation), dated July 21, 2006, of which the Committee is a

24 signatory. Specifically, I provide the Committee's position on several  
25 aspects of the Stipulation and discuss the Committee's evaluation of  
26 PacifiCorp's request for an increase in rates.

27

28 **Q. IN YOUR OPINION, DOES THE STIPULATION RESULT IN A FAIR AND**  
29 **REASONABLE OUTCOME FOR RESIDENTIAL, SMALL BUSINESS**  
30 **AND IRRIGATION CUSTOMERS?**

31 A. Yes. Taken as a package, the Stipulation produces a reasonable  
32 outcome for Utah customers. The Stipulation results in fair and  
33 reasonable rates for Utah customers; allows for necessary new capital  
34 investment in generation, transmission, and distribution projects; provides  
35 rate stability through at least August 7, 2008; and requires PacifiCorp to  
36 withdraw its Power Cost Adjustment Mechanism (PCAM) filing.

37

38 **Q. HOW DOES THE RATE INCREASE AGREED TO IN THE**  
39 **STIPULATION COMPARE TO THE RATE INCREASE REQUESTED BY**  
40 **PACIFICORP IN ITS INITIAL FILING IN THIS CASE?**

41 A. In its application, filed on March 7, 2006, PacifiCorp requested an increase  
42 in rates of \$197.2 million. In its supplemental testimony filed on April 5,  
43 2006 in compliance with the provisions of Commitment U23 of Appendix A  
44 to the Stipulation in Docket No. 05-035-54, PacifiCorp reduced its  
45 requested increase by \$3.1 million to \$194.1 million.

46

47       The Stipulation calls for a two-step increase in rates: an initial increase in  
48       rates of \$85 million effective December 11, 2006; and a subsequent  
49       increase in rates of \$30 million effective June 1, 2007. The overall  
50       increase in rates after the second phase of the increase takes effect is  
51       \$115 million.

52

53   **Q.    WHY DOES THE COMMITTEE SUPPORT A TWO-PHASE INCREASE**  
54   **IN RATES IN THIS PROCEEDING?**

55   A.   As previously discussed in my Pre-filed Direct Test Year Testimony in this  
56       docket, the Committee supports using a future test year ending  
57       September 30, 2007 based on the unique facts and circumstances  
58       inherent in this rate case. This support for the use of a future test year is  
59       largely based on the need for new capital investment and increased  
60       maintenance expenditures to address both the sustained load growth in  
61       Utah and concerns raised by the Committee in other forums regarding the  
62       reliability of PacifiCorp's sub-transmission and distribution network.

63

64       In supporting the use of a future test year in this rate case, my testimony  
65       also indicated that such support was conditional on appropriate  
66       safeguards being put into place to better assure that the Company's  
67       forecasted costs are consistent with what actually occurs in the rate  
68       effective period. One of the potential safeguards identified in my Pre-Filed

69 Test Year Testimony was the phasing-in of rate recovery of costs ascribed  
70 to particular major projects or initiatives.

71

72 One of the large capital projects projected to be placed into service during  
73 the future test year is the Lake Side generation plant, which is currently  
74 anticipated to be operational in May 2007. Additionally, many of the  
75 projected transmission and distribution system upgrades are anticipated to  
76 occur in the latter half of the future test year. Thus, the Committee  
77 supports phasing these new plant additions into rates when they become  
78 used and useful, which results in a second rate increase taking effect on  
79 June 1, 2007.

80

81 **Q. THE RATE INCREASE AGREED TO BY THE PARTIES IN THE**  
82 **STIPULATION IS HIGHER THAN RATE INCREASES RESULTING**  
83 **FROM THE LAST SEVERAL PACIFICORP RATE CASE**  
84 **PROCEEDINGS. WHY IS THE COMMITTEE SUPPORTIVE OF AN**  
85 **INCREASE OF THIS MAGNITUDE?**

86 A. In several forums, the Committee has raised concerns with the reliability of  
87 service in Utah. Included within PacifiCorp's rate case filing were  
88 significant levels of expenditures for new generation plant, replacement  
89 and upgrade of transmission and distribution assets, and increases in  
90 annual maintenance expenditures for generation, transmission and  
91 distribution assets. Additional levels of prudent expenditures in these

92 areas should result in future improvements in reliability and quality of  
93 service for Utah customers. The overall goal should be to balance the  
94 costs incurred by customers to maintain the system with a reasonable  
95 level of reliability and quality of service. The Direct Testimony of  
96 PacifiCorp witness Richard Walje, filed in March 2006, indicated on page  
97 10 that "...Utah Power has seen improvements in both SAIDI and SAIFI  
98 performance and is on track to achieving its goal of a 6 percent  
99 improvement in these measures by March 2008." The projected costs  
100 associated with achieving the improvement in these key reliability  
101 indicators are incorporated within PacifiCorp's filing.

102  
103 **Q. SINCE THE AMOUNT OF RATE INCREASE CONTAINED WITHIN THE**  
104 **STIPULATION IS LOWER THAN THE AMOUNT OF INCREASE**  
105 **REQUESTED BY PACIFICORP, WILL PACIFICORP BE ABLE TO**  
106 **INCREASE ITS SPENDING IN AREAS THAT WOULD IMPROVE**  
107 **SYSTEM RELIABILITY?**

108 A. Yes. In evaluating PacifiCorp's filing and determining what the Committee  
109 viewed to be a fair and reasonable amount of rate increase, the  
110 Committee did not substantially adjust downward the level of capital  
111 investment and maintenance expenditures. The total \$115 million rate  
112 increase allows for a significant increase in capital and maintenance  
113 expenditures. The Committee believes that the amount of increase  
114 allowed for in the Stipulation should provide adequate funds to

115 management for purposes of improving reliability and quality of service in  
116 Utah.

117

118 **Q. WITH REGARDS TO ACCOUNTABILITY, IS THE COMMITTEE**  
119 **CONCERNED THAT THE COMPANY WILL NOT SPEND THE MONEY**  
120 **ON PROJECTS OR INITIATIVES RELATED TO IMPROVING**  
121 **RELIABILITY AS SET FORTH IN THEIR FILING?**

122 A. As pointed out in my Pre-filed Direct Test Year Testimony, the  
123 Committee's support of the future test year was contingent on appropriate  
124 safeguards being put into place to ensure that the Company's forecasted  
125 costs are consistent with what actually occurs in the rate effective period.  
126 A potential safeguard addressed in that testimony was the establishment  
127 of a deferral mechanism to ensure that amounts included in rates to  
128 improve reliability are actually spent. Such a provision would hold  
129 PacifiCorp accountable for a portion of expenditures pertaining to  
130 reliability.

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132 Paragraph 15 of the Stipulation provides an "accountability" safeguard and  
133 specifically addresses system maintenance and capital expenditures in  
134 Utah. In paragraph 15 of the Stipulation, PacifiCorp agreed to the  
135 following provisions:

136 a. During the period from October 2006 to September 2007,  
137 PacifiCorp's expenditures for distribution maintenance set forth in  
138 Federal Regulatory Commission ("FERC") accounts 590 through  
139 598 will be not less than 93% of \$67.5 million;

b. During the period from October 2006 to September 2007, PacifiCorp's capital costs for distribution pole replacements will be not less than \$5.1 million.

PacifiCorp agreed in paragraph 15 of the Stipulation that the net revenue requirement impact of expenditures below those agreed to in the above paragraphs would be deferred for treatment in a future rate case. This requirement provides an additional incentive to PacifiCorp to ensure that needed expenditures are made to upgrade the reliability of the Utah system.

**Q. WOULD YOU PLEASE ELABORATE ON THE ANALYSIS CONDUCTED BY THE COMMITTEE IN EVALUATING THE RATE INCREASE REQUESTED BY PACIFICORP IN THIS CASE?**

A. Yes. While the Stipulation was reached in this case prior to the Committee submitting direct testimony on revenue requirement issues, Committee experts and staff conducted a thorough analysis of PacifiCorp's filing. This included a detailed review of the Company's testimony and supporting exhibits, the issuance of discovery requests and a review of responses, as well as an on-site audit of Company documents and discussions with various PacifiCorp personnel.

Prior to entering into settlement negotiations, we determined that various adjustments to PacifiCorp's request were warranted. These included adjustments in the areas of net power costs, cost of capital, projected



plant additions, miscellaneous rate base items, employee-related costs and other O&M/A&G (OMAG) expenses. Also factored into the Committee's analysis was the reduction in employees occurring after the completion of the merger with MidAmerican Energy Holdings Company that had not been fully considered in PacifiCorp's filing. We also reviewed the adjustments to PacifiCorp's request that were sponsored by other parties to the Stipulation and discussed the adjustments with those parties.

As indicated in Paragraph 7 of the Stipulation, there was not an overall agreement as to the test period utilized or on the revenue requirement adjustments which led to the stipulated revenue requirement increase. Different parties relied upon different test periods and adjustments in supporting the overall \$115 million rate increase.

**Q. ARE THERE ADDITIONAL ASPECTS TO THE STIPULATION THAT YOU WISH TO ADDRESS?**

A. Yes. As part of the current docket, the parties entered into a Stipulation on Filing Requirements, Discovery and Timing of Test Period Hearing ("Filing Requirements Stipulation"), which was approved by the Commission on February 22, 2006. Within the Filing Requirements Stipulation, PacifiCorp agreed (for the current docket only) to provide additional revenue requirement filing information, cost of service filing

information and responses to master data requests. The additional filing requirements and master data requests were derived from the work of several task forces in which many of the parties, including the Committee, participated extensively during 2005. In Paragraph 13 of the Stipulation, the parties have agreed to hold discussions regarding additional filing requirements and master data requests for PacifiCorp's next general rate case. If PacifiCorp and the parties in such discussions can not reach agreement on the new information filing requirements, then PacifiCorp has agreed, at a minimum, to provide the additional information and master data request responses agreed to in the Filing Requirements Stipulation. The Committee views the additional information resulting from the Filing Requirements Stipulation to be greatly beneficial in the evaluation of a general rate case filing and is pleased that this provision was included within the Stipulation.

**Q. COULD YOU PLEASE ELABORATE ON THE RATE STABILITY BENEFITS THAT ARE ACHIEVED BY THE STIPULATION?**

A. In Paragraph 12 of the Stipulation, PacifiCorp has agreed that it will not file another Utah general rate case before December 11, 2007. This means that after the \$30 million "second phase" increase is implemented on June 1, 2007, base rates are not expected to change prior to August 7, 2008, which is a period of 14 months. Absent this rate stability provision,

210 PacifiCorp could potentially file an application requesting an additional  
211 increase in rates shortly after the rates from this case take effect.

212

213 Additionally, in Paragraph 13 of the Stipulation, PacifiCorp agreed to  
214 withdraw its Application in Docket No. 05-035-102 in which PacifiCorp  
215 requested that its proposed PCAM be approved and implemented. As  
216 part of this provision, PacifiCorp has agreed that it will not file another  
217 application requesting the approval of any form of a PCAM prior to  
218 December 11, 2007.

219

220 Thus, these two provisions guarantee rate certainty and stability for Utah  
221 customers through at least August 7, 2008.

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223 **Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

224 A. Yes. The Committee believes that the phased \$115 million rate increase  
225 set forth in the Stipulation, coupled with the stay-out provision, the utility's  
226 withdrawal of its PCAM request, and the accountability measures  
227 incorporated within the Stipulation, achieve fair and reasonable results for  
228 Utah customers.

229

230 **Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY ON THE**  
231 **REVENUE REQUIREMENT AND RATE SPREAD STIPULATION?**

232 A. Yes.